

GENERAL COUNSEL'S REPORT

January 22, 2014

- A. Parkridge Valley Hospital, Chattanooga (Hamilton County), TN — CN1202-006
Request for modification to the certificate of need by increasing the project cost by \$566,006 from \$140,000 to 706,006. This project was approved on May 23, 2012 with an expiration date of July 1, 2015 for the following: 1) The addition of 16 additional child and adolescent psychiatric beds; and 2) The relocation of all 48 licensed adult psychiatric beds to a new campus site.

- B. Monroe Carell Jr. Children's Hospital at Vanderbilt, Nashville (Davidson County), TN — CN0710-075
Request for modifications and a four (4) year extension of the expiration date from March 1, 2014 to March 1, 2018. Modifications include a change in the floor plan which will result in a decrease in square footage from 372,140 square feet to 210,000 square feet of new construction; and a \$128,326,286 decrease of the total project cost from \$248,326,286 to \$120,000,000. This project was originally approved January 23, 2008 for the expansion of the existing MCJCH through an adjacent building connected to the hospital and addition of 105 beds.

GENERAL COUNSEL'S REPORT

January 22, 2014

A. Parkridge Valley Hospital, Chattanooga (Hamilton County), TN — CN1202-006

Request for modification to the certificate of need by increasing the project cost by \$566,006 from \$140,000 to 706,006. This project was approved on May 23, 2012 [by unanimous vote] with an expiration date of July 1, 2015 for the following: 1) The addition of 16 additional child and adolescent psychiatric beds; and 2) The relocation of all 48 licensed adult psychiatric beds to a new campus site.

DEC 20 13 4:10:28

SunTrust Plaza
401 Commerce Street
Suite 800
Nashville, TN 37219
(615) 782-2200
(615) 782-2371 Fax
www.stites.com

December 20, 2013

Jerry W. Taylor
(615) 782-2228
(615) 742-0703 FAX
jerry.taylor@stites.com

Melanie M. Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street
Nashville, TN 37243

RE: Parkridge Valley Hospital
CN1202-006A

Dear Ms. Hill:

This is to request approval of an increase in the estimated project cost from \$140,000 to \$706,006 (exclusive of filing fees). The reasons for the cost increase are varied, and are summarized below. At this time, and barring any unforeseen delays, no extension of time is requested.

Background: This project was one of three CONs granted to Parkridge Medical Center, Inc. on May 23, 2012 (CN1202-005A, CN1202-006A, and CN1202-007A). The cumulative effect of the 3 CONs was nothing short of a re-configuration of the delivery system of psychiatric services for children and adults in the southeast Tennessee region. The overall project was prompted by the abrupt and unexpected closure of a free-standing psychiatric hospital with 32 inpatient psychiatric beds at a facility then known as Cumberland Hall in Chattanooga. Parkridge came forward to fill the void in services and beds created by the closure of Cumberland Hall. No opposition was filed to any of these projects.

The three CONs authorized a combination of bed conversions, re-distributions and additions, as well as the purchase of the entire building and campus of the former Cumberland Hall, by Parkridge. This allowed for the segregation of child and adolescent psychiatric patients on one Parkridge campus (Parkridge Valley Hospital) and the adult psychiatric patients on a separate Parkridge campus (Parkridge Valley Adult Services), the latter of which was the former Cumberland Hall campus. It also allowed for 16 additional child and adolescent psych beds at Parkridge Valley Hospital, a desperately needed service for which Parkridge is the only provider in the region. This request for approval of a cost increase directly relates only to the Parkridge Valley Hospital project. (A cost increase has previously been approved for Parkridge Valley Adult Services campus).

18664N:131756:1031091:2:NASHVILLE

Melanie M. Hill
December 20, 2013
Page 2

Reasons for Cost Overrun: In general, Parkridge misjudged the scope of changes, renovation and equipment that would be required to accomplish such a drastic change of the campus. Not only did the bed total increase by 16 beds, but the campus had to be completely re-fitted in order to be appropriate to serve the needs of a dedicated adolescent-only population. The components of the changes resulting in cost overruns are varied, and are summarized, with the estimated cost of each, on the attached budget.

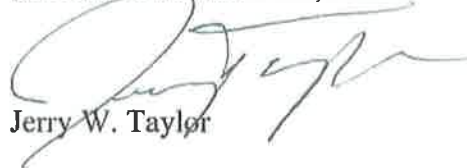
Status of Project: The expiration date of the CON is July 1, 2015. At this time, it appears this deadline will be met. All adult patients have been relocated to the recently opened Parkridge Valley Adult Services campus, which was approved by CN1202-007AM. Due to the increased intensity of the renovations discussed above, the project will be implemented in two phases. Phase I is well underway and should be completed in the 1st quarter of 2014. This phase consists of physically re-configuring space, moving walls and similar renovations which will make more room for the sixteen additional beds while reducing the number of patients required to be house 3 to a room. Upon approval of this cost increase request, the final cost of Phase I is estimated to be \$181,785. Approximately \$35,000 of this is for IT equipment, which will be the final expenditure of this Phase and can be finalized and installed relatively quickly.

Phase II will begin upon completion of Phase I, and will consist of modifications necessary and/or desirable to fully convert what was formerly adult space to space appropriate for children and adolescents. The completion of this phase of the renovation will allow all of the patients to return to the industry norm of no more than two adolescents per room. (Unlike many adult medical facilities, most behavioral health professionals believe it is therapeutically beneficial for adolescent psychiatric patients to be in semi-private rooms). The final cost of this phase of renovation is estimated to be \$524,221 and will bring the total project cost to that requested by this modification request: \$706,006. Despite the increased intensity of the renovations, Parkridge believes it can accomplish the goal of completing Phase II by the expiration date of July 1, 2015.

Please place this request on the agenda for the January 2014 meeting. I and other representatives of Parkridge Valley Hospital will be there to answer any questions the members may have. It is my understanding the additional filing fee for the cost increase is to be paid upon the filing of the Final Project Report. If this is not correct, please let me know and the fee will be submitted. Thank you.

Sincerely yours,

STITES & HARBISON, PLLC



Jerry W. Taylor

PARKRIDGE VALLEY CHILD & ADOLESCENT CAMPUS RENOVATIONS PROJECT BUDGET**As of 12/18/13****Phase 1**

Phase 1a In House Work	\$ 36,351	\$ already spent
Phase 1b In House Work	\$ 50,938	\$ already spent
General Contractor	\$ 59,496	In process
IT budget	\$ 35,000	Will not be funded until after receiving state approval for overrun

Phase 2

General Contractor	\$ 419,471	Will not be funded until after receiving state approval for overrun
IT budget	\$ 50,000	Will not be funded until after receiving state approval for overrun

Other

Legal and Administrative/Consultant Fee	\$ 5,000	
Wall units (32)	\$ 22,368	Will not be funded until after receiving state approval for overrun
Group room chairs (20)	\$ 3,880	Will not be funded until after receiving state approval for overrun
Day room chairs (12)	\$ 9,912	Will not be funded until after receiving state approval for overrun
Day room chairs (6)	\$ 4,956	Will not be funded until after receiving state approval for overrun
Tax & freight - furniture	\$ 4,112	Will not be funded until after receiving state approval for overrun

10% contingency - furniture only

\$ 4,523

Projected Grand Total**\$ 706,006**

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN1202-006A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Parkridge Medical Center, Inc.
2333 McCallie Avenue
Chattanooga, TN 37404

For: Parkridge Valley Hospital

This Certificate is issued for: 1) The addition of 16 additional child and adolescent psychiatric beds to the 68 beds currently located on the satellite campus at 2200 Morris Hill Road, Chattanooga (Hamilton County), TN; and 2) The relocation of all 48 of its licensed adult psychiatric beds to a new campus site. The current licensed hospital bed complement at Parkridge Valley Hospital which is a satellite location of Parkridge Medical Center will decrease from 116 beds to 84 beds.

On the premises located at: 2200 Morris Hill Road
Chattanooga (Hamilton County), TN 37421

For an estimated project cost of: \$143,000.00

The Expiration Date for this Certificate of Need is

July 1, 2015

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: May 23, 2012


Chairman

Date Issued: June 27, 2012


Executive Director

GENERAL COUNSEL'S REPORT

January 22, 2014

B. Monroe Carell Jr. Children's Hospital at Vanderbilt, Nashville (Davidson County), TN — CN0710-075

Request for modifications and a four (4) year extension of expiration date from March 1, 2014 to March 1, 2018. Modifications include a change in the floor plan which will result in a decrease in square footage from 372,140 square feet to 210,000 square feet of new construction; and a \$128,326,286 decrease of the total project cost from \$248,326,286 to \$120,000,000. This project was originally approved January 23, 2008 [8-0-1 vote—Handorf abstained] for the expansion of the existing MCJCH through an adjacent building connected to the hospital and addition of 105 beds.

The applicant has provided updates on the status of the project on June 23, 2010, and March 23, 2011 and the Agency determined modifications to the CON were not required at this time.



December 27, 2013

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
502 Deaderick Street, Ninth Floor
Nashville, Tennessee 37243

RE: Vanderbilt University Hospital CN0710-075A for Monroe Carell, Jr. Children's Hospital at Vanderbilt

Dear Ms. Hill:

The purpose of this letter is to update the Agency regarding the project referenced above, and to request modifications to the project and a timeline extension to complete the project.

The original project was for a significant expansion of the Monroe Carell, Jr. Children's Hospital at Vanderbilt ("MCJCHV"), which is licensed as part of Vanderbilt University Hospitals ("VUH"). The Agency granted a certificate of need ("CON") for the project on January 23, 2008. As approved, the project included a new building with 90 additional pediatric acute care beds, 36 neonatal intensive care beds (20 new and 16 relocated), new surgical suites and space for the relocation of obstetrical services. The CON increased the total approved bed count to 1,051, and the estimated cost for the project was \$248,326,286. The CON has an expiration date of March 1, 2014.

In June 2010, MCJCHV requested and received approval to modify the approved project in a phased approach. The first phase included a 33-bed modification and acquisition of property for approximately \$36.5 million. This phase was completed and opened in May 2012.

During the 2010 approval process, it was stated MCJCHV would return to the Agency with updates and requests related to additional modification phases. After occupying the first phase for more than year, a second phase has been determined. This phase will consist of a four floor vertical expansion of the existing MCJCHV.

The one floor with 36 beds will be constructed for use with the remaining three floors shelled for future build-out. Each floor is anticipated to be approximately 39,790 gross square feet, for a total of 159,160 gross square feet.

An intermediate mechanical level consisting of 21,415 gross square feet of new space will also be added. In addition, all existing elevators will be extended, and two additional passenger elevators added and connected through to the lower levels. The existing helipad will also be relocated to the top of the new structure. Estimated project cost of the core and shell component is \$64,676,351 and the built-out floor is \$18,801,248 for a total estimated project cost of \$83,477,599.



Monroe Carell Jr. Children's Hospital at Vanderbilt
Administration

2200 Children's Way | Suite 2410 | Nashville, TN 37232-9900
tel 615.936.4040 | fax 615.936.6200
www.ChildrensHospital.Vanderbilt.org

This modification can be completed within the original CON approved number of beds and well within the approved dollar threshold. The plan outlined above will require approval by the Agency as a material modification of the original CON, because the scope of the project in terms of total square feet will be reduced by more than 10%. The original project would have involved approximately 372,140 square feet of new construction. As modified, the project (including the 33-bed addition that has been completed and the 4 floor addition described above) will require approximately 210,000 square feet of new construction.

The total project cost will be approximately \$120,000,000, as compared to the original project cost of \$248,326,286.

We also request an extension of the timeline for an additional four years in order to complete this phase of the project. Material progress toward completion of the project as occurred as evidenced by completion of the 33-bed addition described above.

We would greatly appreciate your including this item in the General Counsel's report for the Agency's meeting scheduled for January 22, 2014. Please let us know if you have questions and/ or need additional information.

Sincerely,



Luke Gregory
Chief Executive Officer
Monroe Carell Jr. Children's Hospital at Vanderbilt

Cc: Dan Elrod, Butler Snow
Ginna Felts, Vanderbilt University Medical Center

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN0710-075A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Vanderbilt University Hospital
1211 22nd Avenue South
Nashville, TN 37232

For: Monroe Carell Jr. Children's Hospital at Vanderbilt

This Certificate is issued for: The expansion of the existing Monroe Carell Jr. Children's Hospital (MCJCH) through an adjacent building connected to the existing hospital. The new building will contain 90 additional pediatric acute critical care beds, 36 neonatal intensive care beds (16 relocated), and an expanded obstetrical service including 36 relocated postpartum beds, 12 new antepartum beds, 16 labor and delivery suites (12 relocated), 2 relocated operating rooms and 1 new obstetric operating room. Five pediatric operating rooms are proposed on the third floor which will also contain 5 additional shelled operating rooms to accommodate continued growth. MCJCH is not licensed separately from Vanderbilt University Hospital (VUH). This project will increase the licensed bed capacity of the hospital by 105 beds from 946 to 1,051.

On the premises located at: 2200 Children's Way
Nashville (Davidson), TN 37232

For an estimated project cost of: \$248,326,286.00

The Expiration Date for this Certificate of Need is

March 1, 2014

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: January 23, 2008


Chairman

Date Issued: February 27, 2008


Secretary



Vanderbilt University Medical Center

Strategic Development

3319 West End Avenue, Suite 400
Nashville, TN 37203
phone (615) 936-6012
fax (615) 936-6078

May 28, 2010

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, TN 37243

RE: Vanderbilt University Hospital, CN0710-075A for Monroe Carell, Jr.
Children's Hospital at Vanderbilt

Dear Ms. Hill:

The purpose of this letter is to update the Agency regarding the project referenced above, and to request modifications to the extent appropriate.

Background

This project is for a significant expansion of the Monroe Carell, Jr. Children's Hospital at Vanderbilt ("MCJCH"), which is licensed as part of Vanderbilt University Hospital ("VUH"). The Agency granted a certificate of need ("CON") for the project on January 23, 2008. As approved, the project includes a new building with 90 additional pediatric acute care beds, 36 neonatal intensive care beds (20 new and 16 relocated), new surgical suites and space for the relocation of obstetrical services. Attached as Exhibit 1 is a rendition of the MCJCH campus, with the building described in the CON identified by light shading.

The estimated cost for the project is \$248,326,286.00. Because of the size and complexity of the project, the CON has an expiration date of March 1, 2014.

Proposed Phasing

After the CON was granted, the U.S. economy suffered the most severe downturn since the Great Depression. In light of this development, VUH has reconsidered how best to implement the project. VUH has determined that the most prudent way to proceed is in discrete phases.

Under the new plan, the first phase will be an addition to the northwest side of the existing bed tower. The relationship of this proposed addition to the existing facility is indicated in the aqua colored block labeled Phase 1 on Exhibits 2 and 3. This addition will allow the implementation of 32 of the 90 pediatric acute care beds approved and 8 of the 20 new neonatal intensive care beds approved. Although 40 beds will be newly constructed, 7 existing beds will be lost due to the interface with the existing building. Please see the attached bed chart and cross-sectional drawing.

The estimated cost of the proposed phase 1 addition is approximately \$30 million. The anticipated completion date would be in the early spring of 2012. The addition can be completed well within the current CON expiration date of March 1, 2014 since the anticipated completion date would be in the early spring of 2012. To the extent the Agency determines that this first phase is a material modification of the existing CON, we ask for approval of such modification.

Future Phases

VUH plans to implement the remainder of the project in later phases in buildings on the sites indicated on Exhibit 3. The detailed design of these buildings and the timing for implementation is under active review and analysis. VUH intends to implement these phases, along with phase 1, for a total cost within the original project cost. When the details regarding design and timing for later phases have been determined, VUH will submit to the Agency an additional update and request for modification to the extent necessary.

We would appreciate your including this item in the General Counsel's report for the Agency's meeting scheduled on June 23, 2010. In the meantime, if you have any questions or need any additional information, please let me know.

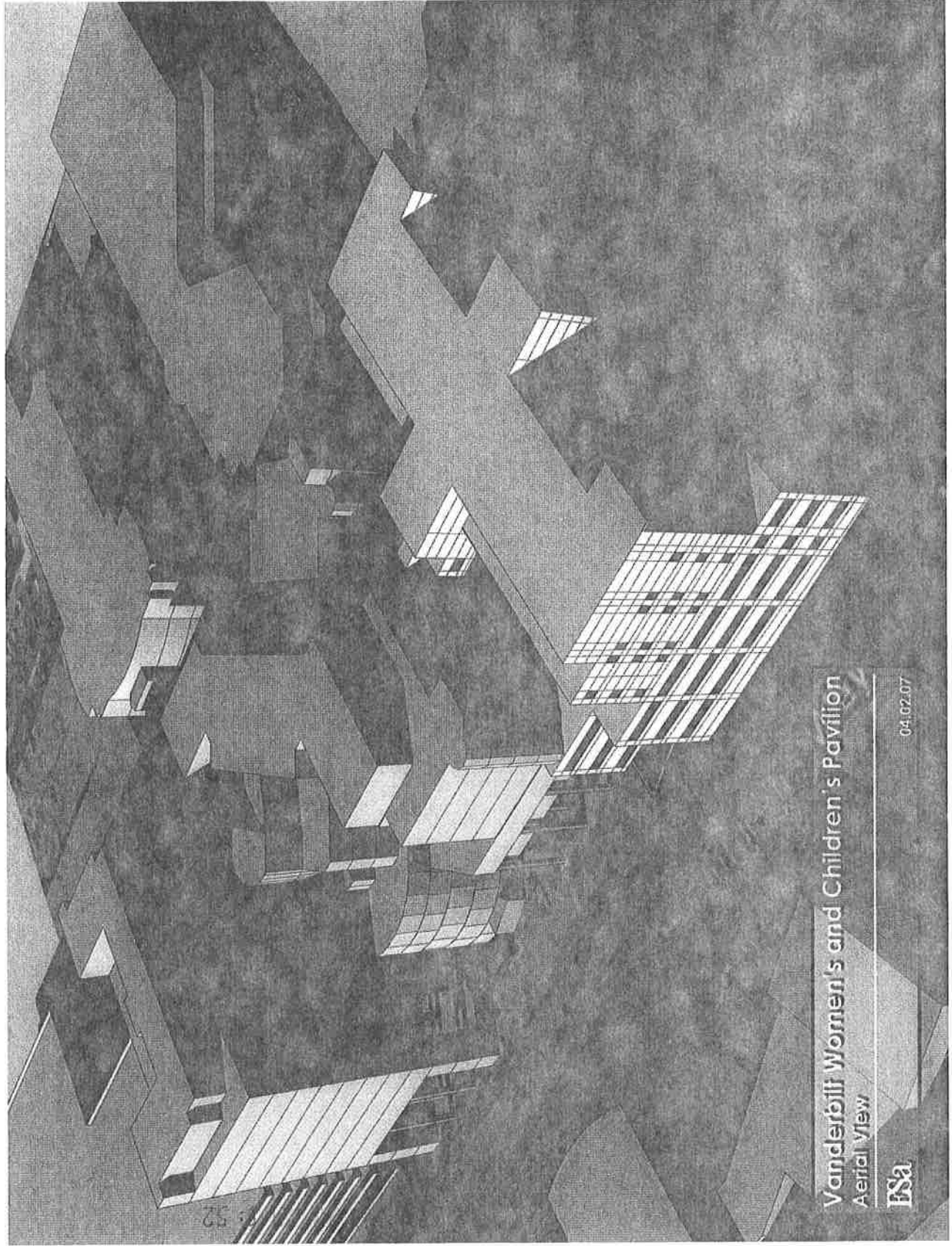
Sincerely,



Ronald W. Hill, MPH

Cc: Kevin Churchwell, MD
Jonathan Gitlin, MD
C. Wright Pinson, MD
Dan Elrod

Exhibit 1



Vanderbilt Women's and Children's Pavilion
Aerial View

04.02.07

ESa

Exhibit 2

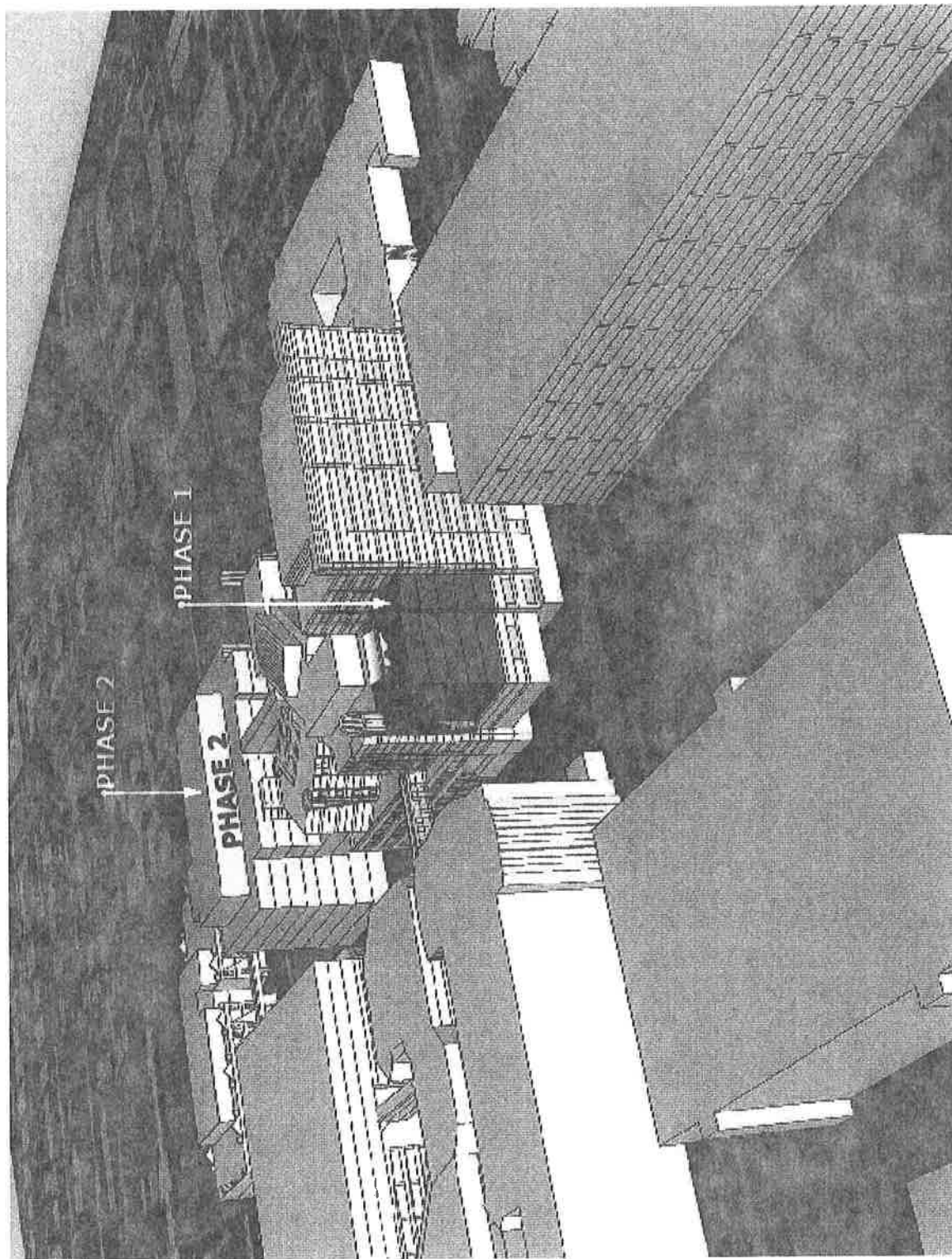
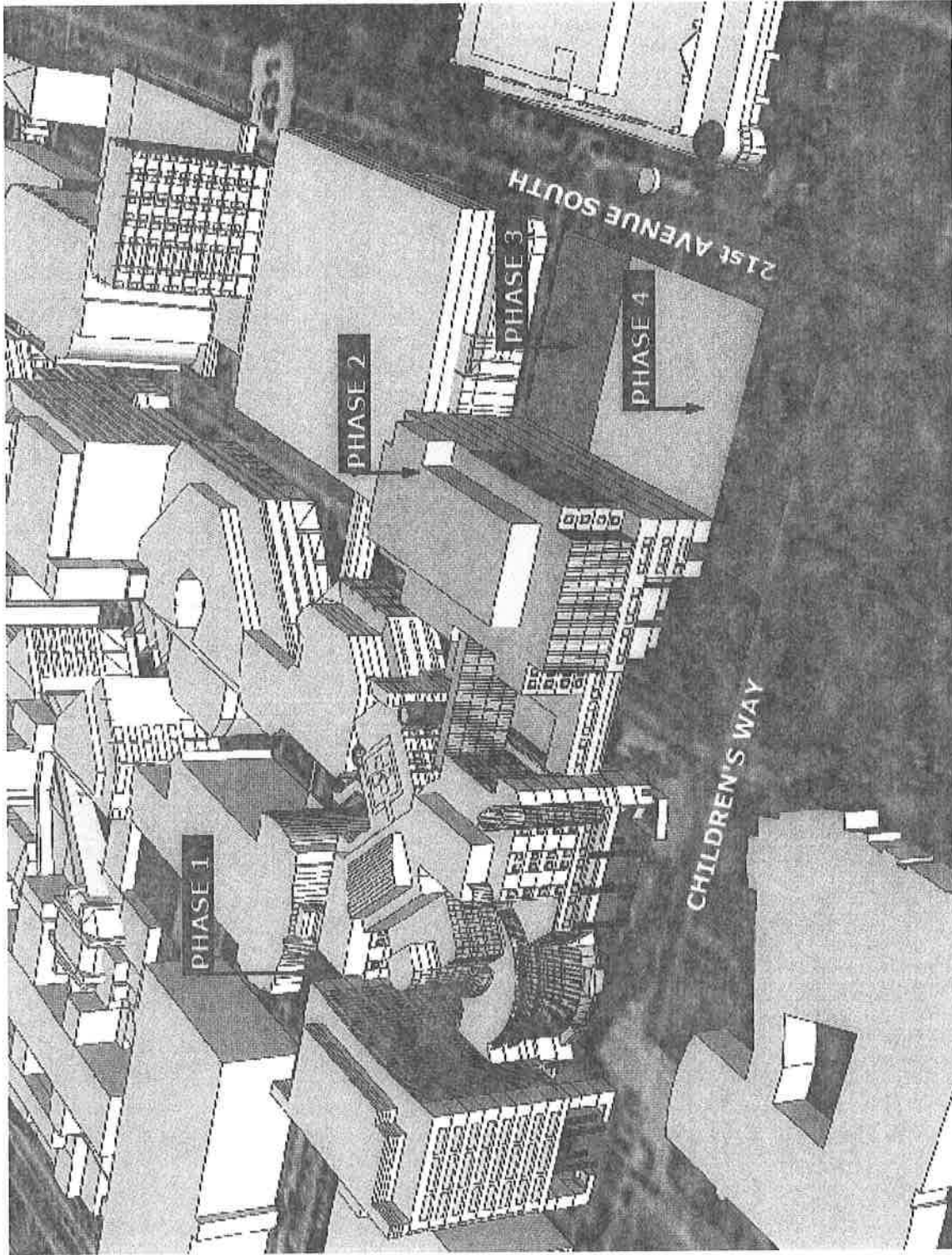


Exhibit 3

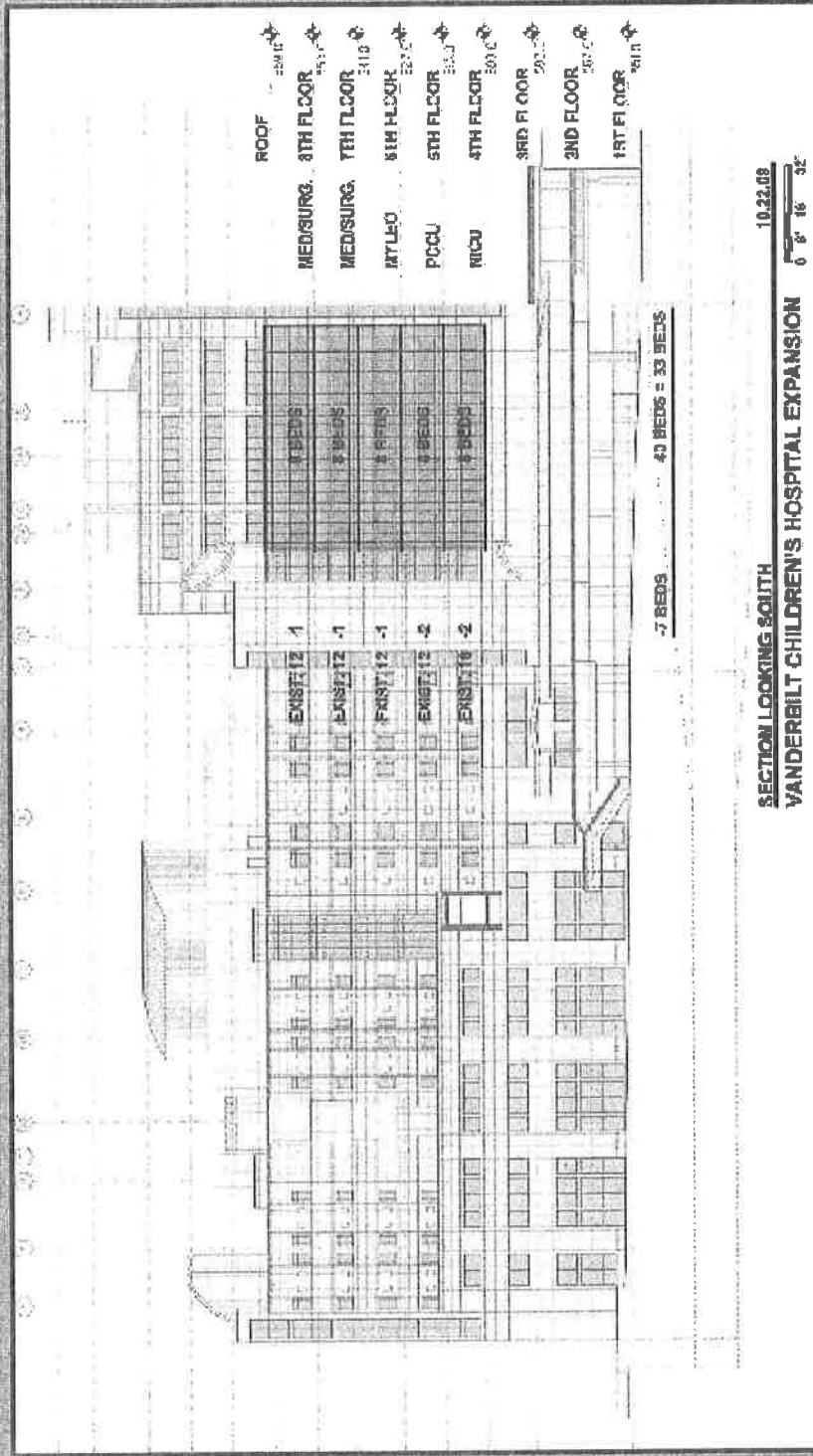


Monroe Carell Jr. Children's Hospital Expansion

Bed Chart

	New Beds Approved in Expansion CON	Beds to be Constructed in First Phase of Expansion	Beds Lost due to Interface with existing Building	Net Change in Beds Due to First Phase	Beds Remaining in Approved Expansion CON
Neonatal ICU	20	8	2	6	14
Pediatric Acute Care	90	32	5	27	63

Cross-sectional Drawing





Vanderbilt University Medical Center

Strategic Development

2011 MAR 10 AM 11:16 3319 West End Avenue, Suite 400
Nashville, TN 37203
phone (615) 936-6012
fax (615) 936-6078

March 10, 2011

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, TN 37243

RE: CN # 0710-075A

Dear Melanie,

Thank you for meeting with Ginna Felts and me to discuss the proposed 2 bed addition to the existing Obstetrical Unit at Vanderbilt University Hospital. As requested, below is a description of the facts to be presented to the Agency Members at the upcoming hearing scheduled for March 23, 2011. Given the modest nature of the proposed addition, and, given that substantially more obstetrical beds were approved for addition in CN# 0710-075A, we would like to request that the issue be addressed during the Consent Calendar portion of the agenda if possible.

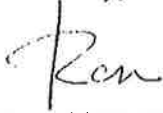
With the approval of CN#0710-075A for the Expansion of the Monroe Carell Jr. Children's Hospital at Vanderbilt (MCJCHV), 48 obstetrical beds were to be relocated and 16 obstetrical beds were to be added for a new total of 64 beds. Please see attached chart showing beds approved in the earlier project.

The expansion CON was addressed subsequently during the June 2010 agency hearing where the concept of a phased approach to construction was described for the members. The first phase of this approach consists of the addition of 33 pediatric beds to the MCJCHV and the beginning of construction is imminent. The timeline for additional phases of the project, including the relocation of the Obstetrical Unit, is not known. However, based on an increasing numbers of deliveries, the addition of 2 obstetrical beds in renovated existing space is needed to alleviate short term pressures by accommodating the current and anticipated volume of patients.

The second attachment shows the proposed renovation plan while the third attachment is a graph which demonstrates the calendar year 2010 number of deliveries, as well as those patients scheduled to deliver through September, 2011. The cost of the 2 bed addition including required equipment is \$499,000.

Please let us know should you believe additional information is necessary. Also, we have copied Ann Rutherford Reed, Director of Licensure, as she requested during the meeting.

Sincerely,

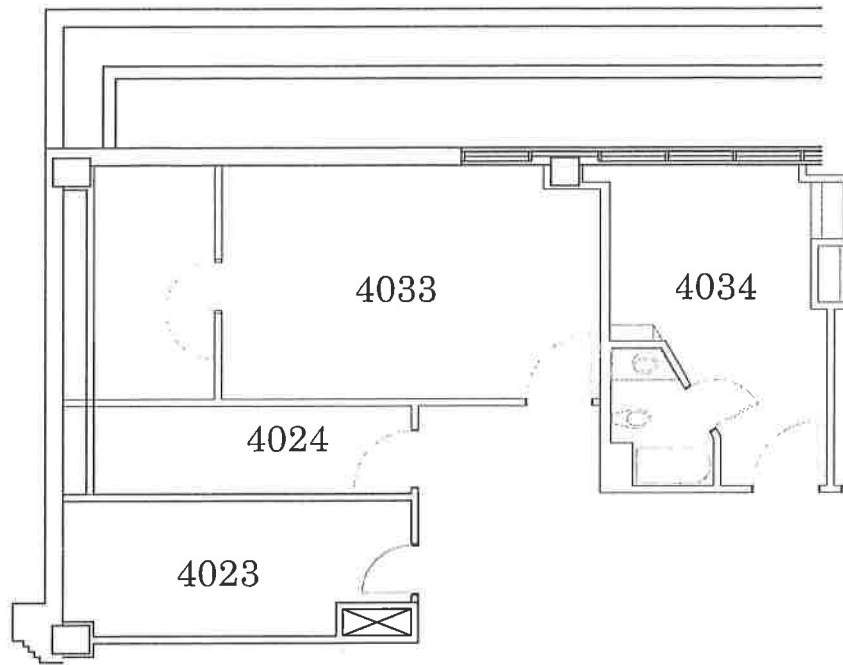
A handwritten signature in dark ink, appearing to read 'RWH', written over a vertical line.

Ronald W. Hill, M.P.H.

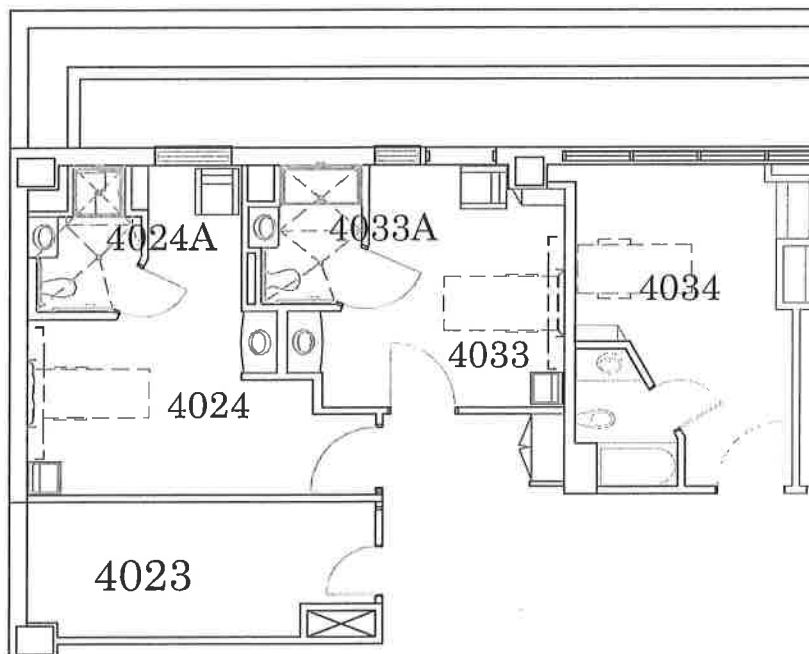
Cc: Mark Farber, Assistant Executive Director
Jim Christoffersen, General Counsel
Ann Rutherford-Reed, Director of Licensure
Larry Goldberg, CEO, Vanderbilt University Hospital
Luke Gregory, CEO, Monroe Carell Jr. Children's Hospital
Howard Jones III, MD, Chairman, Vanderbilt Obstetrics and Gynecology Department

Bed Type	VUH – Before Project	MCJCH – Before Project	VPH – Before Project	Total – Before Project	VUH – After Project	MCJCH – After Project	VPH – After Project	Total – After Project
Medical	208	90	0	298	185	90	0	275
Surgical	165	24	0	189	155	24	0	179
OB	48	0	0	48	0	64	0	64
ICU/CCU	227	30	0	257	227	120	0	347
NICU	16	62	0	78	0	98	0	98
Psych.	0	0	88	88	0	0	88	88
Other	0	0	0	0	0	0	0	0
TOTAL	664	206	88	958	567	396	88	1051

Bed Type	VUH – Net Change	MCJCH – Net Change	VPH – Net Change	Total – Net Change
Medical	-23	0	0	-23
Surgical	-10	0	0	-10
OB	-48	64	0	16
ICU/CCU	0	90	0	90
NICU	-16	36	0	20
Psych.	0	0	0	0
Other	0	0	0	0
TOTAL	-97	190	0	93



BEFORE



AFTER

Vanderbilt University Medical Center

Obstetric Deliveries and New Patients

